

Message Text

UNCLASSIFIED

PAGE 01 LONDON 00413 01 OF 02 111133Z
ACTION EUR-12

INFO OCT-01 ISO-00 USIE-00 SP-02 AID-05 EB-07 NSC-05
CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01
L-03 H-02 PA-02 PRS-01 SSO-00 NSCE-00 INRE-00 /086 W
-----111138Z 003426 /12

O 111117Z JAN 77 ZFF (TRSY)
FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC IMMEDIATE
SECSTATE WASHDC 9323

UNCLAS SECTION 01 OF 02 LONDON 00413

DEPARTMENT PASS FEDERAL RESERVE BOARD

E.O. 11652: N/A
TAGS: EFIN, UK
SUBJECT: PRESS REACTION TO STERLING BALANCE FACILITY

1. AGREEMENT IN BASLE ON STERLING BALANCE FACILITY IS COVERED EXTENSIVELY IN FRONT-PAGE UK PRESS HEADLINES. THE FINANCIAL TIMES PRINTS THE FULL TEXT OF THE BASLE COMMUNIQUE AND DEVOTES 3 ARTICLES AND AN EDITORIAL (REPORTED SEPARATELY) TO THE AGREEMENT. FRONT-PAGE ARTICLE ELABORATES ON THE BASLE COMMUNIQUE WITHOUT ADDING ANYTHING FURTHER IN SUBSTANCE ASIDE FROM NOTING THAT A MAJOR ROLE IN REACHING AGREEMENT APPEARS TO HAVE BEEN PLAYED BY THE FAVORABLE ATTITUDE TAKEN BY THE UNITED STATES. IT WAS LEARNED THAT EDWIN YEO, UNITED STATES TREASURY UNDER SECRETARY WAS IN LONDON AT THE WEEKEND. IT IS BELIEVED HE HAD SOME OFFICIAL DISCUSSIONS. IN ADDITION, CHANCELLOR HEALEY WILL MAKE A STATEMENT THIS AFTERNOON IN PARLIAMENT (EMBASSY WILL REPORT WHEN AVAILABLE). JUREK MARTIN REPORTING FROM WASHINGTON STATES:

QUOTE THE U.S. EXPRESSED SATISFACTION AT THE AGREEMENT WHICH IT HAS PLAYED A MAJOR ROLE IN FORMULATING.
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 00413 01 OF 02 111133Z

MR. YEO SAID: "THIS AGREEMENT WILL REINFORCE THE EFFORTS OF THE UK AUTHORITIES THAT ARE MANIFEST IN THE IMF UNDERTAKINGS. THEY REPRESENT A WAY OF THINKING ABOUT A COUNTRY'S BALANCE SHEET--AN EXTENSION OF LIABILITIES, A SMOOTHING OPERATION IF YOU WILL. I THINK THIS MARKS A SIGNIFICANT STEP IN THAT DIRECTION."

THE BALANCES PLAN WAS ARRIVED AT AFTER CONSIDERABLE DISCUSSIONS ON BOTH SIDES OF THE ATLANTIC IN RECENT WEEKS. IN THE LAST FORTNIGHT MR. YEO VISITED LONDON ON AT LEAST ONE MORE OCCASION BEFORE LAST WEEKEND. ON BOTH OCCASIONS THERE WAS NO PRIOR ANNOUNCEMENT AND IT IS BELIEVED THAT BRITISH OFFICIALS HAVE COME TO WASHINGTON UNDER A SIMILAR CLOAK OF SECRECY.

MR. YEO SAID THAT THE IMF ROLE ESSENTIALLY WOULD BE "TO ENSURE THAT THESE ARRANGEMENTS ARE IN OVERALL COMPATIBILITY WITH THE \$3.9BN. PROGRAMME." (THE RECENT BRITISH LOAN FROM THE FUND).

MR. YEO LATER TOLD AP-DJ THAT BRITAIN WOULD DRAW AGAINST THE \$3BN. FUND OVER THE NEXT 2 YEARS AND WOULD HAVE 4 YEARS TO PAY BACK SUCH BORROWINGS. IN A JOINT STATEMENT, THE US TREASURY AND THE FEDERAL RESERVE BOARD SAID THAT THE US WOULD PROVIDE \$1BN. OF BACKING FOR THE \$3BN. UNQUOTE
THE ABOVE STATEMENTS BY MR. YEO GIVE MORE DETAIL ON THE MATURITY AND IMF ROLE THAN DO THE GENERAL ARTICLES IN THE BRITISH PRESS.

2. THE TIMES PUBLISHES THE BASLE COMMUNIQUE ON ITS FRONT PAGE. AN INTERPRETATIVE COMMENT SAYS THE SCHEME IS THE FINAL ELEMENT IN THE PACKAGE OF MEASURES THE GOVERNMENT HAS INTRODUCED TO RESTORE INTERNATIONAL CONFIDENCE IN STERLING, INCLUDING THE IMF LOAN AND THE RECENT CUTS IN PUBLIC SPENDING. THE SOLUTION TO THE STERLING BALANCES PROBLEM IS DESIGNED TO HAVE 2 PARTS, ONE AIMED AT INSURING

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 LONDON 00413 01 OF 02 111133Z

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 LONDON 00413 02 OF 02 111136Z
ACTION EUR-12

INFO OCT-01 ISO-00 USIE-00 SP-02 AID-05 EB-07 NSC-05
CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00
FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01
L-03 H-02 PA-02 PRS-01 SSO-00 NSCE-00 INRE-00 /086 W

-----111139Z 003472 /12

O 111117Z JAN 77 ZFF (TRSY)
FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC IMMEDIATE
SECSTATE WASHDC 9324

UNCLAS SECTION 02 OF 02 LONDON 00413

IMMEDIATE CONFIDENCE AND THE OTHER DESIGNED TO PROVIDE A LONG-TERM METHOD OF AN ORDERLY RUN DOWN OF THE OFFICIAL HOLDINGS. PRIVATE HOLDINGS HAVE BEEN FAIRLY STABLE AND ARE NOT COVERED BY THE SCHEME. THE TIMES AND OTHER PAPERS NOTE THAT UNLIKE THE 1968 SCHEME THERE ARE NO STERLING EXCHANGE RATE GUARANTEES. CENTRAL BANKERS BELIEVE THE UK OUGHT TO TAKE ACTION TO INSURE THAT THE HOLDINGS OF STERLING RUN DOWN GENTLY IN THE COMING YEARS RATHER THAN BUILD UP AGAIN. HOWEVER, FOREIGN HOLDERS WILL BE ALLOWED TO CASH IN THEIR POUNDS FOR BRITISH GOVERNMENT BONDS WHICH WILL BE DENOMINATED IN A FOREIGN CURRENCY OR CURRENCIES AND WHICH WILL BE REPAYED IN 5 TO 10 YEARS.

3. OTHER LONDON PRESS, INCLUDING GUARDIAN AND TELEGRAPH HAVE FRONT-PAGE ARTICLES AND HEADLINES. THE GUARDIAN SAYS IT IS THE HOPE OF CENTRAL BANKERS THAT THE SAFETY NET LOAN WILL RESTORE CONFIDENCE IN STERLING AND WILL ONLY BE RARELY ACTIVATED. US, GERMANY AND JAPAN WILL PUT UP THE BULK OF THE MONEY. BUT IT IS UNDERSTOOD THAT A CONDITION OF AGREEMENT WILL BE THAT BRITAIN WILL NEVER AGAIN ALLOW VAST INFLUX OF FOREIGN CURRENCIES, INVESTMENTS AND DEPOSITS INTO LONDON AS IT DID AFTER OCTOBER 1973... THIS TIME AROUND IT SEEMS AS IF BRITAIN'S ROLE AS A
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 LONDON 00413 02 OF 02 111136Z

WORLD RESERVE CURRENCY IS TO BE PUT ON THE SCRAP HEAP ONCE AND FOR ALL.

4. THE HERALD TRIBUNE STORY, FROM WIRE DISPATCHES, SAID INTER ALIA: "ONE SOURCE, WHO DECLINED TO BE NAMED, INDICATED THAT THE \$3 BILLION SAFETY NET WOULD ONLY BE AVAILABLE AS LONG AS BRITAIN COMPLIES WITH THE CONDITIONS OF THE LOAN IT RECEIVED FROM THE INTERNATIONAL MONETARY FUND" AND SOME WORK REMAINS TO BE DONE ON TECHNICAL DETAILS.

ARMSTRONG

UNCLASSIFIED

NNN

*** Current Handling Restrictions *** n/a

*** Current Classification *** UNCLASSIFIED

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGREEMENTS, CREDIT PROGRAMS, FINANCIAL RESERVES, NEWS MEDIA COMMENTS, PUBLIC ATTITUDES, STERLING (CURRENCY)
Control Number: n/a
Copy: SINGLE
Sent Date: 11-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977LONDON00413
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Expiration:
Film Number: D770010-0152
Format: TEL
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770189/aaaafqgs.tel
Line Count: 168
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON MICROFILM, TEXT ON-LINE
Message ID: 1aede4dd-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 13-Sep-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3676944
Secure: OPEN
Status: <DBA CORRECTED> mcm 970827
Subject: PRESS REACTION TO STERLING BALANCE FACILITY
TAGS: EFIN, UK
To: STATE TRSY
Type: TE
vdkgvkey: odb://SAS/SAS.dbo.SAS_Docs/1aede4dd-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009